

Message Text

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INFO AMEMBASSY BONN

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AMEMBASSY MADRID

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SUBJ: IMPLICATIONS FOR U. S. EXPORTS OF RECENT FOREIGN EXCHANGE
DEVELOPMENTS

REF: STATE 077866

SUMMARY. COMBINATION OF FEBRUARY DEVALUATION AND CURRENT FLOAT
HAS EFFECTIVELY REVALUED SWISS FRANC BY APPROXIMATELY 24 PERCENT
AGAINST THE DOLLAR SINCE BEGINNING OF YEAR. ON TRADE- WEIGHTED
BASIS, REVALUATION RELATIVE TO SWITZERLAND'S 15 LARGEST TRADING
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PARTNERS HAS BEEN ABOUT 11 PERCENT. WHILE THESE EXCHANGE RATE REALIGNMENTS SHOULD IMPROVE U. S. COMPETITIVE POSITION IN SWITZERLAND, AN EXTENSIVE SURVEY OF U. S. SUBSIDIARIES, SWISS IMPORTERS/DISTRIBUTORS, AND END- USERS OF U. S. PRODUCTS INDICATES THAT ONLY ABOUT ONE- HALF OF U. S. EXPORTS TO SWITZERLAND ENJOYING SIGNIFICANT REDUCTIONS IN SWISS FRANC PRICES. U. S. CAPITAL GOODS AND CERTAIN INDUSTRIAL PRODUCTS HAVE GONE DOWN IN PRICE BY 5 TO 24 PERCENT. WITH EXCEPTION OF AUTOS, MODEST PRICE REDUCTIONS REPORTED FOR CONSUMER GOODS NOT EXPECTED TO OFFSET ADVERSE NON- PRICE FACTORS. RAPID INCREASE IN DOLLAR PRICES OF U. S. AGRICULTURAL PRODUCTS HAVE EFFECTIVELY CANCELLED BENEFITS OF PARITY CHANGES. END SUMMARY.

1. CAPITAL AND INDUSTRIAL EQUIPMENT -- REDUCTION OF SWISS FRANC PRICES HAVE RANGED FROM 5 TO 24 PERCENT. PARITY CHANGES SINCE 1971 HAVE NOW MADE MANY TYPES OF U. S. CAPITAL EQUIPMENT AND INDUSTRIAL GOODS EXTREMELY COMPETITIVE TO POINT WHERE A LARGE NUMBER OF SWISS FIRMS ARE SPECIFYING PRODUCTS OF US ORIGIN, AS OPPOSED TO THE SAME GOODS MADE BY US SUBSIDIARIES ABROAD, OR ARE SHIFTING FROM EUROPEAN TO US SUPPLIERS. RESULTS OF SURVEY ALSO INDICATE THAT US HAS BECOME SHARPLY COMPETITIVE WITH COMPARABLE SWISS EQUIPMENT IN THIRD MARKETS. COMPARISON OF QUANTITY INDICES AND TOTAL VALUES OF SWISS EXPORTS DURING 1971 AND 1972 INDICATES THAT EXPORTERS MAY HAVE REDUCED PROFIT MARGINS TO AVOID PASSING ON FULL EFFECTS OF MAY 1971 REVALUATION AND HIGHER DOMESTIC COSTS. CONSEQUENTLY, A NUMBER OF SWISS FIRMS FIND THAT PARITY CHANGES SINCE FEBRUARY HAVE SERIOUSLY REDUCED THEIR COMPETITIVENESS IN EXPORT MARKETS AND THEY HAVE LITTLE MARGIN TO CUT PRICES FURTHER. THIS IS NOT THE CASE, HOWEVER, FOR CERTAIN TYPES OF SWISS CAPITAL EQUIPMENT, SUCH AS HIGH PRECISION MACHINERY, WHICH ARE UNIQUE AND VERY PRICE INELASTIC. FOLLOWING ARE MAJOR US CAPITAL AND INDUSTRIAL EXPORT LINES WHICH ARE EXPECTED TO BENEFIT FROM DEVALUATION- RELATED SWISS FRANC PRICE REDUCTIONS:

(A) CONSTRUCTION MACHINERY -- MAJOR SWISS REPRESENTATIVES OF CATERPILLAR AND INTERNATIONAL HARVESTER REPORTED PRICE REDUCTIONS OF 6 AND 10 PERCENT, RESPECTIVELY. THEY EXPRESSED OPINION THAT COMPETITIVENESS OF US EQUIPMENT HAS IMPROVED SUBSTANTIALLY OVER SIMILAR GERMAN AND JAPANESE EQUIPMENT. QUALITY OF US EQUIPMENT ALSO CONSIDERED SUPERIOR. PRINCIPAL COMPLAINT OF REPS IS UNCLASSIFIED

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PROTRACTED DELIVERY TIMES FROM US SUPPLIERS.

(B) MACHINE TOOLS -- SWISS MANUFACTURERS AND TRADE SOURCES STATED US MACHINE TOOLS MUCH MORE COMPETITIVE SINCE DEVALUATION. SWISS COMPANIES PRESENTLY USING NON- US MACHINE TOOLS REPORTEDLY LOOKING TO US FOR FUTURE PURCHASES. SWISS MANUFACTURERS FEAR THEIR SALES TO US WILL BE SERIOUSLY AFFECTED. SOURCES NOTE,

HOWEVER, THAT US COMPETITIVE EDGE MAY SOON DISAPPEAR SINCE THERE ARE INDICATIONS THAT US MACHINE TOOL PRICES ARE ON THE INCREASE.

(C) PRINTING EQUIPMENT AND MACHINERY -- ON AVERAGE SWISS FRANC PRICES DOWN 5-6 PERCENT. ONE MAJOR DISTRIBUTOR OF EQUIPMENT FROM US, GERMANY, AND JAPAN REPORTS THAT HIS FIRM IS PASSING ON FULL 10 PERCENT PRICE DECREASE FOR US EQUIPMENT. HE SAID THAT US- MADE EQUIPMENT AND MACHINERY NOW HAS A SUBSTANTIAL COMPETITIVE ADVANTAGE OVER OTHER MANUFACTURERS.

(D) MEDICAL AND LABORATORY EQUIPMENT AND INSTRUMENTS - - PRINCIPAL DISTRIBUTORS OF US EQUIPMENT REPORTED PRICE REDUCTIONS OF 7 TO 16 PERCENT. ALTHOUGH US EQUIPMENT HAS ALWAYS ENJOYED EXCELLENT REPUTATION FOR QUALITY, PRICE REDUCTIONS GIVE SIGNIFICANT ADVANTAGE OVER NON- US SUPPLIERS. OMINOUS NOTE, HOWEVER, IS REPORT BY MAJOR DISTRIBUTOR THAT HE CURRENTLY TRYING TO DISSUADE ONE US SUPPLIER FROM INCREASING DOLLAR PRICE BY 7 PERCENT.

(E) AIRCRAFT -- DOLLAR PRICE OF LARGE COMMERCIAL AIRCRAFT UNCHANGED SO SWISSAIR (ONLY CUSTOMER IN SWITZERLAND FOR SUCH AIRCRAFT) FINDS US PLANES ABOUT 24 PERCENT (EFFECTIVE REVALUATION OF SWISS FRANC) CHEAPER. ALTHOUGH TECHNICAL CONSIDERATIONS OF OVERRIDING IMPORTANCE IN COMMERCIAL AIRCRAFT SALES, LOWER SWISS FRANC PRICE MAY HELP ELIMINATE EUROPEAN AIRBUS FROM CONSIDERATION BY SWISSAIR. PRICE REDUCTIONS ON SMALLER PRIVATE AIRCRAFT

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HAVE RANGED FROM 10 TO 15 PERCENT. ALTHOUGH BEECH AND LEAR HAVE REPORTEDLY INCREASED PRICES ON AIRCRAFT AND PARTS FROM 6 TO 10 PERCENT, US SMALL AIRCRAFT ARE STILL CHEAPER THAN BEFORE DEVALUATION AND OFFER TOUGH COMPETITION TO THIRD- COUNTRY SUPPLIERS.

(F) COMPUTERS AND RELATED EQUIPMENT. IBM HAS REDUCED SALES AND LEASING PRICES FOR MOST OF ITS EQUIPMENT BY 6 TO 16 PERCENT. NCR HAS REDUCED PRICES 5 TO 10 PERCENT DESPITE 6.5 PERCENT INCREASE IN DOLLAR PRICES. UNIVAC PRICES HAVE BEEN REDUCED A TOTAL OF 10 PERCENT. MAJOR SWISS IMPORTER OF MEMORY CORES AND SPECIALIZED CIRCUITRY STATED THAT DOLLAR PRICES OF US EQUIPMENT
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UNCHANGED AND HE HAS ALREADY SHIFTED SOME PROCUREMENT FROM EUROPE TO THE US. HE EXPECTS, HOWEVER, THAT AFTER A CERTAIN " GRACE" PERIOD, US SUPPLIERS WILL RAISE PRICES AS THEY DID AFTER 1971 DEVALUATION.

(G) OTHER ELECTRONIC COMPONENTS -- POLL OF END- USERS OF ELECTRONIC COMPONENTS INDICATES THAT THEY GENERALLY PREFER TO BUY DIRECTLY FROM US SUPPLIERS SINCE LOCAL AGENTS ARE NOT PASSING ON LOWER SWISS FRANC COSTS. WITH DEMAND CURRENTLY OUTPACING SUPPLY, AGENTS UNDER NO COMPETITIVE PRESSURE TO REDUCE LOCAL PRICES.

(H) OTHER PRODUCT LINES -- EMBASSY SURVEY ALSO COVERED OFFICE EQUIPMENT, PUMPS AND VALVES, ALUMINUM, FILM PRODUCTS, AND INDUSTRIAL CHEMICALS. ALL LINES EXCEPT CHEMICALS REPORTED LOWER SWISS FRANC PRICES AND IMPROVED COMPETITIVENESS. CHEMICAL PRICES WERE REDUCED BY 5 TO 10 PERCENT SHORTLY AFTER THE FEBRUARY DEVALUATION, BUT SUBSEQUENT DOLLAR PRICE INCREASES WIPED OUT THE ADVANTAGE.

2. CONSUMER GOODS -- BENEFITS OF DEVALUATION HAVE HAD A CONSIDERABLY LESS POSITIVE EFFECT ON CONSUMER ITEMS WITH THE ONE EXCEPTION OF AUTOMOBILES. PRICES OF 1973 MODEL US AUTOS HAVE BEEN REDUCED AS FOLLOWS: GM - 7 PC, CHRYSLER - 9 PC, AND FORD - 10 PC. US AUTOS, HOWEVER, ARE STILL HANDICAPPED BY HIGH MAINTENANCE COSTS, HIGH GAS CONSUMPTION, INORDINATE TAXATION, AND LOW RESALE VALUE.

EVEN SO, SWISS DEALERS FOR ALL THREE MAKES EXPECT SALES INCREASES OF 10 TO 15 PERCENT AS A RESULT OF THE DEVALUATION. TRADE SOURCES REPORT THAT PRICES OF MOST OTHER TYPES OF CONSUMER GOODS HAVE BEEN REDUCED ONLY 2 TO 4 PERCENT. THIS RELATIVELY SMALL DECLINE IS NOT EXPECTED TO OFFSET ADVERSE FACTORS SUCH AS INCREASED TRANSPORTATION COSTS FROM US, LONGER DELIVERY TIMES COMPARED TO EUROPEAN SOURCES, AND INABILITY OF US FIRMS TO ASSURE CONTINUITY OF SUPPLY. A LARGE SWISS DEPARTMENT STORE CHAIN TURNED DOWN A SHOW OF US CONSUMER GOODS BECAUSE THEY COULD NOT COUNT ON A CONTINUING SUPPLY OF GOODS FROM THE US. STORE MANAGER COMPLAINED THAT US COMPANIES EXPORT ONLY WHEN DEMAND IN US IS SLACK. HE SAID THAT WHEN US DEMAND PICKS UP, FOREIGN MARKETS ARE CUT OFF.

3. AGRICULTURAL PRODUCTS -- EMBASSY SURVEY INDICATES THAT DOLLAR
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DEVALUATION WILL RESULT IN VIRTUALLY NO BENEFIT TO SALE OF US AGRICULTURAL PRODUCTS IN SWITZERLAND. ACROSS THE BOARD DOLLAR PRICE INCREASES ON ALL MAJOR AGRICULTURAL COMMODITIES NORMALLY EXPORTED TO SWITZERLAND HAVE EQUALLED OR SURPASSED POTENTIAL PRICE BENEFITS DUE TO DEVALUATION.

4. CONCLUSIONS - DUE TO DOLLAR PRICE INCREASES, ONLY ABOUT HALF OF CURRENT US EXPORT MIX TO SWITZERLAND BENEFITING SIGNIFICANTLY FROM DEVALUATION. CONTINUED US DOMESTIC INFLATION THREATENS TO ERODE REMAINING PRICE ADVANTAGES. WHERE PRICE ADVANTAGES EXIST, SWISS IMPORTERS GENERALLY PASSING THEM ON. THIS DUE, AT LEAST IN PART, TO EFFORTS BY SWISS AUTHORITIES WHO ARE "JAWBONING" US SUBSIDIARIES AND SWISS AGENT/ DISTRIBUTORS TO PASS ON FULL BENEFIT OF DEVALUATION AS PART OF GOVERNMENT'S ANTI-INFLATIONARY PROGRAM. EMBASSY'S SURVEY HAS AGAIN SHOWN THAT NON-PRICE FACTORS ALSO VERY IMPORTANT IN COMPETITIVENESS OF US PRODUCTS. LACK OF US AFTER- SALES SERVICE, UNRELIABILITY OF US SUPPLIERS, TOUGH CREDIT TERMS, AND OCCASIONAL UNETHICAL PRACTICES BY US FIRMS ADVERSELY AFFECT US COMPETITIVE POSITION.
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